

# HOUSE BILL REPORT

## SHB 2024

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**As Passed House:**  
March 12, 2019

**Title:** An act relating to deductions of incentive payments under the medicaid program established within 42 C.F.R. 438.6(b)(2) and Sec. 1115 medicaid demonstration project number 11-W-00304/0.

**Brief Description:** Concerning deductions of incentive payments under the medicaid program established within 42 C.F.R. 438.6(b)(2) and Sec. 1115 medicaid demonstration project number 11-W-00304/0.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Robinson and Cody).

**Brief History:**

**Committee Activity:**

Finance: 2/25/19, 2/26/19 [DPS].

**Floor Activity:**

Passed House: 3/12/19, 97-1.

**Brief Summary of Substitute Bill**

- Provides a business and occupation tax exemption for incentive payments made to managed care organizations as part of the Accountable Communities of Health Medicaid demonstration project under the federal waiver.

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### HOUSE COMMITTEE ON FINANCE

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Tarleton, Chair; Walen, Vice Chair; Orcutt, Ranking Minority Member; Young, Assistant Ranking Minority Member; Chapman, Frame, Macri, Morris, Orwall, Springer, Stokesbary and Vick.

**Staff:** Tracey O'Brien (786-7152).

**Background:**

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

### Accountable Communities of Health.

In 2015 the United States Congress enacted the Medicare Access and Children's Health Insurance Program Reauthorization Act (MACRA). Part of the MACRA restructures how certain health services are paid for through Medicaid.

An Accountable Community of Health (ACH) is a regional coalition of representatives from a variety of sectors, working together to improve health and health equity. Participants may include health and long-term care providers, health insurance companies, public health agencies, school districts, and criminal justice agencies.

Washington's nine ACHs were organized to implement the MACRA goals related to Medicaid. They have entered into an agreement with the federal government allowing the state to test new and innovative approaches to providing health coverage and care. The ACHs are funded partly with grants from the Washington State Health Care Authority (HCA), using money from the State Innovation Model grant issued by the Federal Center for Medicare and Medicaid Innovation.

Counties that commit to implementing integrated managed care before 2020 will be eligible for incentive funds to deliver improved coordinated health care for people in their region. These incentives will be distributed in two phases: delivery of binding letters of intent and implementation. The ACHs and partnering providers are eligible for incentive payments for completion of each phase.

In 2018 the Legislature enacted a business and occupation (B&O) tax exemption for Medicaid demonstration project funds and delivery system reform incentive payments received after March 15, 2018, by an ACH or a public hospital from federal, state, or local government.

### **Summary of Substitute Bill:**

The B&O tax deductions are extended to include incentive payments received through a Medicaid quality improvement program. An updated reference to the applicable federal waiver is provided.

A B&O deduction is authorized for incentive payments received for achieving quality performance standards by managed care organizations. "Managed care organization" is defined as an organization having a certificate of registration from the Office of the Insurance Commissioner that contracts with the HCA under a comprehensive risk contract to provide prepaid health care services to eligible clients under the HCA's Medicaid managed care program, including healthy options.

The B&O deduction only applies to amounts received after the effective date of the act.

The exemption is not subject to the tax preference performance statement requirements, a Joint Legislative Audit and Review Committee (JLARC) review or the 10-year expiration.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) Under the federal waiver program, the state must provide matching funds in order to receive the federal funds. Public hospitals provide funds to the state in order to be used for the state match. In return, the state returns funds to the public hospital including federal incentive payments. The return of the funds to the public hospital makes the funds subject to B&O taxes. Last year, the Legislature provided a tax exemption for some of the federal funds given to the ACHs. The goal of the program is to drive savings and innovation in the state delivery of health care services. This bill is needed to enable the program to work and is necessary to make the parts of the budget work.

(Opposed) None.

**Persons Testifying:** Representative Robinson, prime sponsor; Len McComb, Association of Washington Public Hospital Districts; and Sue Birch, Health Care Authority.

**Persons Signed In To Testify But Not Testifying:** None.